

CITY OF HIAWATHA, KANSAS

FINANCIAL STATEMENTS

Year ending December 31, 2017

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City of Hiawatha, Kansas
FINANCIAL STATEMENTS
Year ending December 31, 2017

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MIZE HOUSER
COMPANY_{PA.}

INDEPENDENT AUDITOR'S REPORT

Mayor and City Commission
City of Hiawatha, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Hiawatha, Kansas, (the City), as of and for the year ended December 31, 2017 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the omission of the financial data of one, but not all, of the related municipal entities of the City of Hiawatha, Kansas and because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2017, or changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City as of December 31, 2017, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts, expenditures and unencumbered cash-trust funds, summary of regulatory basis receipts and disbursements-agency funds, and schedule of regulatory basis receipts and expenditures-related municipal entity (Schedules 1, 2, 3, 4 and 5 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however, are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Migz Houser & Company PA

Certified Public Accountants

March 21, 2018
Lawrence, KS

CITY OF HIAWATHA, KANSAS

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Regulatory Basis
For the Year Ended December 31, 2017

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 466,298	\$ -	\$ 1,517,064	\$ 1,386,167	\$ 597,195	\$ 5,964	\$ 603,159
Special Purpose Funds:							
Library	-	-	145,459	145,459	-	-	-
Industrial	66,980	-	169,382	161,563	74,799	-	74,799
Recreation	4,937	-	61,158	38,862	27,233	218	27,451
Employee Benefit	179,657	-	397,442	362,690	214,409	-	214,409
Special Highway	308,932	-	425,114	464,045	270,001	852	270,853
Parks and Recreation	19,469	-	10,222	12,675	17,016	-	17,016
Liability	500	-	-	-	500	-	500
Drug Forfeiture	2,996	-	-	-	2,996	-	2,996
History Center	22,124	-	17,015	14,173	24,966	-	24,966
Special Events	5,232	-	11,000	6,808	9,424	-	9,424
Hotel Economic Development	69,853	-	91,783	88,977	72,659	-	72,659
MVE Inspection	6,014	-	15,528	15,204	6,338	661	6,999
Safety Dividends	10,473	-	13,950	11,356	13,067	-	13,067
Bond and Interest Fund	316,065	-	776,793	816,953	275,905	-	275,905
Capital Projects Funds:							
Post Lantern Street							
Light Project	150,811	-	169,998	136,510	184,299	-	184,299
Other Capital Projects	[865,530]	-	2,648,343	1,929,902	[147,089]	267,944	120,855
Business Funds:							
Water	1,262,937	-	1,263,592	760,992	1,765,537	2,765	1,768,302
Sewer	636,958	-	871,054	887,560	620,452	18	620,470
Storm Water Utility	49,172	-	79,912	82,099	46,985	-	46,985
Pool	165,002	-	104,258	97,644	171,616	-	171,616
Airport	38,155	-	5,386	9,453	34,088	-	34,088
Trust Funds	16,762	-	1,065	18	17,809	-	17,809
Total Primary Government	2,933,797	-	8,795,518	7,429,110	4,300,205	278,422	4,578,627
Related Municipal Entities:							
Morrill Public Library	1,250,904	-	304,157	290,698	1,264,363	2,414	1,266,777
Total Reporting Entity (Excluding Agency Funds)	\$ 4,184,701	\$ -	\$ 9,099,675	\$ 7,719,808	\$ 5,564,568	\$ 280,836	\$ 5,845,404

Composition of Cash:

Morrill & Janes Bank		
Checking		\$ 3,895,939
Money Market		682,802
Library Savings		185,073
Petty Cash		1,800
Total Morrill & Janes Bank		<u>4,765,614</u>
Citizens State Bank & Trust		
Library Checking		293,381
Library Investments		228,504
Library Petty Cash		180
Total Citizens State Bank & Trust		<u>522,065</u>
Edward Jones		
Library Investments		559,639
Total Edward Jones		<u>559,639</u>
Total Cash		5,847,318
Less Agency Funds per Schedule 4		<u>[1,914]</u>
Total Reporting Entity (Excluding Agency Funds)		<u>\$ 5,845,404</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIAWATHA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Hiawatha (the City) is a municipal corporation governed by a five-member commission. These financial statements present only the primary government of the City and the Morrill Public Library related municipal entity. They exclude one of the related municipal entities for which the City is considered financially accountable:

The Housing Authority of the City of Hiawatha

Separate related municipal entity financial statements may be obtained directly from the above.

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

Regulatory Basis Fund Types

The following types of funds comprise the financial activities of the City for the year ended December 31, 2017:

General Fund - the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Fund - used to account for the proceeds of specific tax levies and other specific regulatory receipts sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund - used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

Capital Projects Fund - used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Business Fund - funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund, etc.)

Trust Fund - funds used to report assets held in trust for the benefit of the municipal financial reporting entity (i.e. pension funds, investment trust funds, private purpose trust funds which benefit the municipal reporting entity, etc.)

Agency Fund – funds used to report assets held by a municipal reporting entity in a purely custodial capacity (i.e. payroll clearing fund, county treasurer tax collection accounts, etc.)

CITY OF HIAWATHA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The budget for the year ended December 31, 2017 was amended for the Library Fund.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which, regulatory receipts are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project funds, trust funds, and the following special purpose funds: Liability, Drug Forfeiture, History Center, Hotel Economic Development, MVE Inspection, and Safety Dividends.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE 2 - LONG-TERM DEBT

General Obligation Bonds. The City issues General Obligation Bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds have been issued for both general government and business activities. These bonds are reported in the business funds if they are expected to be repaid from business fund regulatory receipts. In addition, general obligation bonds have been issued to refund both general obligation and revenue bonds.

CITY OF HIAWATHA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 2 - LONG-TERM DEBT (Continued)

General Obligation Bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with equal amounts of principal maturing each year. General Obligation Bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Date Issued</u>	<u>Date of Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Balance December 31, 2017</u>
Paid for by taxes and transfers*:					
General government and capital projects	2011	10/1/26	1.75 - 3.75%	\$ 400,000	\$ 260,000
General government refunding	2012	8/1/26	1.10 - 2.75%	1,265,000	895,000
General government refunding	2012B	10/1/43	2.00 - 4.00%	6,530,000	5,440,000
General government improvement	2014A	1/28/54	2.75%	998,000	954,824
General government improvement	2014B	1/28/24	3.50%	258,400	189,982
General government improvement	2016A	06/15/56	1.75%	1,373,000	1,349,011
General government improvement	2016B	06/15/56	1.75%	<u>93,000</u>	<u>91,375</u>
				<u>\$ 10,917,400</u>	<u>\$ 9,180,192</u>

* Portions of the above General Obligation Bonds were used to finance projects related to the Water, Sewer and Post Lantern Street Light Project Funds or were used to refund debt previously incurred by those funds. The City has developed a schedule of anticipated transfers to be made to the Bond and Interest Fund by the Water, Sewer and Post Lantern Street Light Project Funds to pay for the portions of the debt related to their respective projects. During 2017, transfers were made to the Bond and Interest Fund by the Water, Sewer and Post Lantern Street Light Project Funds in the amounts of \$53,480, \$355,042 and \$136,510, respectively. Additionally, \$146,000 was transferred from the Industrial Fund to the Debt Service Fund and \$31,070 was transferred from the General Fund to the Debt Service Fund during 2017.

Annual debt service requirements to maturity for the general obligation bonds are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 800,153
2019	812,379
2020	818,590
2021	684,134
2022	677,885
2023-2027	2,701,305
2028-2032	1,549,170
2033-2037	1,548,587
2038-2042	1,859,588
2043-2047	744,386
2048-2052	463,588
2053-2056	<u>287,973</u>
Total principal and interest	12,947,738
Less: Interest	<u>[3,767,546]</u>
Total principal	<u>\$ 9,180,192</u>

CITY OF HIAWATHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 2 - LONG-TERM DEBT (Continued)

Yearly anticipated transfers to the Bond and Interest Fund to maturity for the general obligation bonds are as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Post Lantern Street Light Project Fund</u>
2018	\$ 338,926	\$ 53,862	\$ 136,880
2019	343,141	53,973	142,130
2020	343,830	54,144	141,110
2021	340,135	56,384	-
2022	338,873	56,393	-
2023 - 2027	1,637,167	128,575	-
2028 - 2032	1,549,273	-	-
2033 - 2037	1,548,630	-	-
2038 - 2042	1,859,624	-	-
2043 - 2047	744,415	-	-
2048 - 2052	463,620	-	-
2053 - 2056	287,975	-	-
Total	<u>\$ 9,795,609</u>	<u>\$ 403,331</u>	<u>\$ 420,120</u>

State Agency Loans. In 2015, the City arranged for a \$6,700,000 loan through the Kansas Public Water Supply Loan Fund for improving the public water supply system in Hiawatha. The terms of the loan specify that a principal forgiveness amount will be calculated at 30% of the final loan amount associated with the qualifying portion of the project that returns the public water supply system to compliance with maximum contaminant level requirements. The loan includes a gross interest rate of 2.21% plus a .35% service fee. The balance of the loan after principal forgiveness will be due February 1, 2019, at which point the City is planning on refunding the loan with a USDA Rural Development Loan. The full proceeds of the Kansas Public Water Supply Loan Fund had not yet been received by the City as of December 31, 2017.

The following displays annual debt service requirements to maturity for the Kansas Public Water Supply Loan for the full proceeds amount, less the estimated 30% principal forgiveness:

<u>Year Ending December 31,</u>	
2018	\$ -
2019	<u>4,741,825</u>
Total principal and interest	4,741,825
Less: interest and fees	<u>[51,825]</u>
Total principal	<u>\$ 4,690,000</u>

CITY OF HIAWATHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 2 - LONG-TERM DEBT (Continued)

Changes in General Long-term Liabilities. During the year ended December 31, 2017, the following changes occurred in long-term debt:

	Balance January 1, <u>2017</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2017</u>	Interest <u>Paid</u>
Paid for by taxes and transfers:					
General obligation debt -					
Governmental funds	\$9,704,185	\$ -	\$ 523,993	\$ 9,180,192	\$278,472
State agency loans	<u>14,263</u>	<u>1,160,763</u>	<u>14,263</u>	<u>1,160,763</u>	<u>6,322</u>
Totals	<u>\$ 9,718,448</u>	<u>\$ 1,160,763</u>	<u>\$ 538,256</u>	<u>\$ 10,340,955</u>	<u>\$ 284,794</u>

Special Assessments. As provided by Kansas statutes, projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Bond and Interest Fund. Special assessments paid prior to the issuance of bonds are recorded as regulatory receipts in the appropriate project. Special assessments received after the issuance of bonds are recorded as regulatory receipts in the Bond and Interest Fund. The special assessment debt is a contingent liability of the City to the extent of property owner defaults which have historically been immaterial.

Conduit Debt Obligations. From time to time, the City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance.

Neither the City, the State of Kansas, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2017, there were seven series of Industrial Revenue Bonds outstanding, with an aggregate original principal amount payable of \$14,795,000.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits. K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

Investments. K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. As of December 31, 2017, the City held no investments.

CITY OF HIAWATHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued). KSA 12-1225(h) authorizes library boards to invest or reinvest gifts and donations and any dividends, interest, rent, or income derived from the gifts in the manner the board deems will best serve the interest of the library. The Morrill Public Library had the following unsecured investments from gifts and donations at December 31, 2017.

<u>Investment Type</u>	<u>Fair Value</u>
Citizens State Bank & Trust	
Bond Funds	\$ 190,093
Cash & Cash Equivalents	22,401
Stocks & Mutual Funds	15,110
Other Investments	900
Edward Jones	
Cash & Cash Equivalents	7,302
Stocks & Mutual Funds	<u>552,337</u>
Total	<u>\$ 788,143</u>

Concentration of credit risk. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City has no designated "peak periods".

At December 31, 2017, the City's and Library's carrying amounts of deposits were \$4,580,541 and \$478,634, respectively, and the bank balances were \$4,612,056 and \$479,936, respectively. The City's and Library's bank balances were held by two banks resulting in a concentration of credit risk. Of the City's bank balance, \$250,000 was covered by federal depository insurance and the remaining balance of \$4,362,056 was collateralized with securities held by the pledging financial institutions' agents in the City's name. Of the Library's bank balance, \$435,073 was covered by federal depository insurance and the remaining balance of \$44,863 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 4 - DEFINED BENEFIT PENSION PLAN

Plan description - The City participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A 74-4901 *et seq.* Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. KPERs' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERs website at www.kpers.org or by writing to KPERs (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

CITY OF HIAWATHA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 4 - DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009 and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Members contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas Law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate with a 0% moratorium for the period of January 1, 2017 through September 30, 2017 for Death and Disability Program) and the statutory contribution rate was 8.46% for the fiscal year ended December 31, 2017. Contributions to the pension plan from the City were \$96,015 for the year ended December 31, 2017.

Net Pension Liability. At December 31, 2017, the City's proportionate share of the collective net pension liability reported by KPERS was \$913,237. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The City's proportion of the net pension liability was based on the ratio of the City's contributions to KPERS, relative to the total employer and nonemployer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in these financial statements.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

NOTE 5 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. No significant reductions in insurance coverage from that of the prior year have occurred. Settlements have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 - COMPENSATED ABSENCES

It is the City's policy to pay employees' accrued vacation pay upon termination of employment. As of December 31, 2017, the liability for earned vacation pay was \$47,526.

NOTE 7 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by these agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF HIAWATHA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 8 - CAPITAL LEASES OF EQUIPMENT

The City has entered into lease agreements as lessee for financing the acquisition of equipment.

During the year ended December 31, 2017, the following changes occurred in capital leases:

	January 1, <u>2017</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2017</u>	Interest <u>Paid</u>
Capital lease obligations -					
Governmental funds	\$ 208,363	\$ -	\$ 62,546	\$ 145,817	\$ 6,308
Totals	<u>\$ 208,363</u>	<u>\$ -</u>	<u>\$ 62,546</u>	<u>\$ 145,817</u>	<u>\$ 6,308</u>

Annual debt service requirements to maturity for capital leases are as follows:

Year Ending <u>December 31,</u>	
2018	\$ 58,930
2019	32,266
2020	32,266
2021	<u>32,266</u>
Total principal and interest	155,728
Less: interest and fees	<u>[9,912]</u>
Total principal	<u>\$ 145,817</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

The City paid \$2,028 during the year ended December 31, 2017 for vehicle repairs and maintenance to a company owned by the City fire chief.

The Library paid \$5,510 during the year ended December 31, 2017 for accounting services to a company owned by a member of the board.

CITY OF HIAWATHA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 10 - INTERFUND TRANSACTIONS

Operating transfers were as follows:

Fund	In	Out	Regulatory Authority
General Fund	\$ -	\$ 46,917	KSA 12-1,118, Debt Service, Local Authority
Industrial Fund	-	146,000	Debt Service
Special Events Fund	6,000	-	Local Authority
Bond and Interest Fund	722,102	-	KSA 12-825d, Debt Service
Post Lantern Street Light Project Fund	-	136,510	Debt Service
Other Capital Project Funds	61,548	-	KSA 12-1,118, 12-825d
Water Fund	-	151,852	KSA 12-825d
Sewer Fund	-	368,371	KSA 12-825d
Pool Fund	60,000	-	KSA 12-825d
Total	<u>\$ 849,650</u>	<u>\$ 849,650</u>	

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

NOTE 12 - CAPITAL PROJECTS

During 2017, the City completed Phase II of the sanitary sewer project, which was funded by a \$1,466,000 loan from USDA Rural Development, a \$927,000 grant from USDA Rural Development and a \$500,000 Community Development Block Grant (CDBG).

Also, during 2017, the City continued work towards the construction of a Water Treatment Plant and distribution line improvements. During 2017, work occurring on the project included awarding the bid for construction, earth work, treatment plant line installation, upgrades at wells and engineering observation. Total expenditures for 2017 related to this project were \$908,942. Ultimately, this project will be funded by a USDA Rural Development loan and interim financing is being provided through a KDHE State Revolving Fund, which includes 30% principal forgiveness. The estimated completion date of this project is August 2018.

CITY OF HIAWATHA, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Regulatory Basis

For the Year Ended December 31, 2017

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Positive [Negative]</u>
General Fund	\$ 1,802,955	\$ -	\$ 1,802,955	\$ 1,386,167	\$ 416,788
Special Purpose Funds:					
Library	152,250	-	152,250	145,459	6,791
Industrial	166,800	-	166,800	161,563	5,237
Recreation	49,945	-	49,945	38,862	11,083
Employee Benefit	570,600	-	570,600	362,690	207,910
Special Highway	472,066	-	472,066	464,045	8,021
Parks and Recreation	16,200	-	16,200	12,675	3,525
Special Events	6,900	-	6,900	6,808	92
Bond and Interest Fund	1,084,645	-	1,084,645	816,953	267,692
Capital Projects Fund:					
Post Lantern Street Light Project	136,510	-	136,510	136,510	-
Business Funds:					
Water	830,278	-	830,278	760,992	69,286
Sewer	934,857	-	934,857	887,560	47,297
Storm Water Utility	90,000	-	90,000	82,099	7,901
Pool	111,666	-	111,666	97,644	14,022
Airport	30,525	-	30,525	9,453	21,072

See independent auditor's report on the financial statements.

SCHEDULE 2-1

CITY OF HIAWATHA, KANSAS

GENERAL FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Taxes	\$ 1,132,068	\$ 1,147,200	\$ [15,132]
Licenses and permits	19,746	17,200	2,546
Charges for services	21,030	24,250	[3,220]
Fines and fees	263,366	265,000	[1,634]
Use of money and property	47,093	81,250	[34,157]
Reimbursed expenses	6,831	5,000	1,831
Miscellaneous	<u>26,930</u>	<u>-</u>	<u>26,930</u>
Total Receipts	<u>1,517,064</u>	<u>\$ 1,539,900</u>	<u>\$ [22,836]</u>
Expenditures			
General government	423,416	\$ 754,627	\$ 331,211
Public safety	637,666	692,180	54,514
Highways and streets	96,166	97,310	1,144
Culture and recreation	68,771	68,690	[81]
Capital outlay	78,653	88,500	9,847
Transfers out	46,917	57,070	10,153
Ambulance	34,578	34,578	-
Miscellaneous	<u>-</u>	<u>10,000</u>	<u>10,000</u>
Total Expenditures	<u>1,386,167</u>	<u>\$ 1,802,955</u>	<u>\$ 416,788</u>
Receipts Over [Under] Expenditures	130,897		
Unencumbered Cash, Beginning	<u>466,298</u>		
Unencumbered Cash, Ending	<u>\$ 597,195</u>		

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

LIBRARY FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Taxes	\$ 140,524	\$ 148,836	\$ [8,312]
Miscellaneous	<u>4,935</u>	<u>-</u>	<u>4,935</u>
Total Receipts	<u>145,459</u>	<u>\$ 148,836</u>	<u>\$ [3,377]</u>
Expenditures			
Appropriation - related municipal entity	<u>145,459</u>	<u>\$ 152,250</u>	<u>\$ 6,791</u>
Total Expenditures	<u>145,459</u>	<u>\$ 152,250</u>	<u>\$ 6,791</u>
Receipts Over [Under] Expenditures	-		
Unencumbered Cash, Beginning	<u>-</u>		
Unencumbered Cash, Ending	<u>\$ -</u>		

See independent auditor's report on the financial statements.

SCHEDULE 2-3

CITY OF HIAWATHA, KANSAS

INDUSTRIAL FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Taxes	\$ 169,381	\$ 167,500	\$ 1,881
Use of money and property	<u>1</u>	<u>-</u>	<u>1</u>
Total Receipts	<u>169,382</u>	<u>\$ 167,500</u>	<u>\$ 1,882</u>
Expenditures			
Commodities	15,301	\$ 3,000	\$ [12,301]
Contractual services	262	17,800	17,538
Transfers out	<u>146,000</u>	<u>146,000</u>	<u>-</u>
Total Expenditures	<u>161,563</u>	<u>\$ 166,800</u>	<u>\$ 5,237</u>
Receipts Over [Under] Expenditures	7,819		
Unencumbered Cash, Beginning	<u>66,980</u>		
Unencumbered Cash, Ending	<u>\$ 74,799</u>		

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

RECREATION FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Taxes	\$ 33,913	\$ 36,005	\$ [2,092]
Charges for services	25,306	13,100	12,206
Miscellaneous	494	-	494
Reimbursements	<u>1,445</u>	<u>-</u>	<u>1,445</u>
Total Receipts	<u>61,158</u>	<u>\$ 49,105</u>	<u>\$ 12,053</u>
Expenditures			
Personal services	14,117	\$ 18,835	\$ 4,718
Contractual services	19,521	20,160	639
Commodities	5,024	10,950	5,926
Capital outlay	<u>200</u>	<u>-</u>	<u>[200]</u>
Total Expenditures	<u>38,862</u>	<u>\$ 49,945</u>	<u>\$ 11,083</u>
Receipts Over [Under] Expenditures	22,296		
Unencumbered Cash, Beginning	<u>4,937</u>		
Unencumbered Cash, Ending	<u>\$ 27,233</u>		

See independent auditor's report on the financial statements.

SCHEDULE 2-5

CITY OF HIAWATHA, KANSAS

EMPLOYEE BENEFIT FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Taxes	\$ 394,701	\$ 409,528	\$ [14,827]
Miscellaneous	2,679	-	2,679
Reimbursed expenses	<u>62</u>	<u>-</u>	<u>62</u>
Total Receipts	<u>397,442</u>	<u>\$ 409,528</u>	<u>\$ [12,086]</u>
Expenditures			
Social security	57,697	\$ 62,100	\$ 4,403
Retirement	62,481	69,000	6,519
Unemployment	1,095	5,000	3,905
Workman's compensation insurance	26,349	30,000	3,651
Health insurance	215,068	209,500	[5,568]
Contractual	<u>-</u>	<u>195,000</u>	<u>195,000</u>
Total Expenditures	<u>362,690</u>	<u>\$ 570,600</u>	<u>\$ 207,910</u>
Receipts Over [Under] Expenditures	34,752		
Unencumbered Cash, Beginning	<u>179,657</u>		
Unencumbered Cash, Ending	<u>\$ 214,409</u>		

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

SPECIAL HIGHWAY FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Taxes	\$ 338,694	\$ 338,000	\$ 694
Intergovernmental	82,111	80,670	1,441
Miscellaneous	3,272	-	3,272
Reimbursed expenses	<u>1,037</u>	<u>-</u>	<u>1,037</u>
Total Receipts	<u>425,114</u>	<u>\$ 418,670</u>	<u>\$ 6,444</u>
Expenditures			
Personal services	102,673	\$ 126,785	\$ 24,112
Contractual services	40,593	39,000	[1,593]
Commodities	53,731	112,350	58,619
Capital outlay	<u>267,048</u>	<u>193,931</u>	<u>[73,117]</u>
Total Expenditures	<u>464,045</u>	<u>\$ 472,066</u>	<u>\$ 8,021</u>
Receipts Over [Under] Expenditures	[38,931]		
Unencumbered Cash, Beginning	<u>308,932</u>		
Unencumbered Cash, Ending	<u>\$ 270,001</u>		

See independent auditor's report on the financial statements.

SCHEDULE 2-7

CITY OF HIAWATHA, KANSAS

PARKS AND RECREATION FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Regulatory Basis

For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Taxes	\$ 6,177	\$ 6,950	\$ 773
Reimbursed expenses	<u>4,045</u>	<u>-</u>	<u>[4,045]</u>
Total Receipts	<u>10,222</u>	<u>\$ 6,950</u>	<u>\$ [3,272]</u>
Expenditures			
Capital outlay	<u>12,675</u>	<u>\$ 16,200</u>	<u>\$ 3,525</u>
Total Expenditures	<u>12,675</u>	<u>\$ 16,200</u>	<u>\$ 3,525</u>
Receipts Over [Under] Expenditures	[2,453]		
Unencumbered Cash, Beginning	<u>19,469</u>		
Unencumbered Cash, Ending	<u>\$ 17,016</u>		

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

LIABILITY FUND*
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
 Regulatory Basis
 For the Year Ended December 31, 2017

Receipts	
Miscellaneous	\$ <u> -</u>
Total Receipts	<u> -</u>
Expenditures	
General government	<u> -</u>
Total Expenditures	<u> -</u>
Receipts Over [Under] Expenditures	-
Unencumbered Cash, Beginning	<u> 500</u>
Unencumbered Cash, Ending	<u><u> \$ 500</u></u>

* This fund is not required to be budgeted.

SCHEDULE 2-9

CITY OF HIAWATHA, KANSAS

DRUG FORFEITURE FUND*
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
 Regulatory Basis
 For the Year Ended December 31, 2017

Receipts	
Miscellaneous	\$ -
Total Receipts	-
Expenditures	
General government	-
Total Expenditures	-
Receipts Over [Under] Expenditures	-
Unencumbered Cash, Beginning	2,996
Unencumbered Cash, Ending	\$ 2,996

* This fund is not required to be budgeted.

CITY OF HIAWATHA, KANSAS

HISTORY CENTER FUND*
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
Regulatory Basis
For the Year Ended December 31, 2017

Receipts	
Miscellaneous	<u>\$ 17,015</u>
Total Receipts	<u>17,015</u>
Expenditures	
General government	<u>14,173</u>
Total Expenditures	<u>14,173</u>
Receipts Over [Under] Expenditures	2,842
Unencumbered Cash, Beginning	<u>22,124</u>
Unencumbered Cash, Ending	<u>\$ 24,966</u>

* This fund is not required to be budgeted.

CITY OF HIAWATHA, KANSAS

SPECIAL EVENTS FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Donations	\$ 5,000	\$ 2,500	\$ 2,500
Transfers in	<u>6,000</u>	<u>6,000</u>	<u>-</u>
Total Receipts	<u>11,000</u>	<u>\$ 8,500</u>	<u>\$ 2,500</u>
Expenditures			
Events	<u>6,808</u>	<u>\$ 6,900</u>	<u>\$ 92</u>
Total Expenditures	<u>6,808</u>	<u>\$ 6,900</u>	<u>\$ 92</u>
Receipts Over [Under] Expenditures	4,192		
Unencumbered Cash, Beginning	<u>5,232</u>		
Unencumbered Cash, Ending	<u>\$ 9,424</u>		

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

HOTEL ECONOMIC DEVELOPMENT FUND*
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
 Regulatory Basis
 For the Year Ended December 31, 2017

Receipts	
Taxes	\$ <u>91,783</u>
Total Receipts	<u>91,783</u>
Expenditures	
Contractual	1,250
Capital outlay	<u>87,727</u>
Total Expenditures	<u>88,977</u>
Receipts Over [Under] Expenditures	2,806
Unencumbered Cash, Beginning	<u>69,853</u>
Unencumbered Cash, Ending	<u><u>\$ 72,659</u></u>

* This fund is not required to be budgeted.

CITY OF HIAWATHA, KANSAS

MVE INSPECTION FUND*
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
 Regulatory Basis
 For the Year Ended December 31, 2017

Receipts	
MVE inspections	\$ 14,151
Reimbursed expenses	<u>1,377</u>
Total Receipts	<u>15,528</u>
Expenditures	
VIN remittance	810
Capital improvements	<u>14,394</u>
Total Expenditures	<u>15,204</u>
Receipts Over [Under] Expenditures	324
Unencumbered Cash, Beginning	<u>6,014</u>
Unencumbered Cash, Ending	<u>\$ 6,338</u>

* This fund is not required to be budgeted.

CITY OF HIAWATHA, KANSAS

SAFETY DIVIDENDS FUND*
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
Regulatory Basis
For the Year Ended December 31, 2017

Receipts	
Reimbursements	<u>\$ 13,950</u>
Total Receipts	<u>13,950</u>
Expenditures	
Capital outlay	<u>11,356</u>
Total Expenditures	<u>11,356</u>
Receipts Over [Under] Expenditures	2,594
Unencumbered Cash, Beginning	<u>10,473</u>
Unencumbered Cash, Ending	<u>\$ 13,067</u>

* This fund is not required to be budgeted.

CITY OF HIAWATHA, KANSAS

BOND AND INTEREST FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Regulatory Basis

For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Taxes	\$ 25,699	\$ 24,802	\$ 897
Reimbursed expenses	28,992	-	28,992
Transfers in	<u>722,102</u>	<u>722,102</u>	<u>-</u>
Total Receipts	<u>776,793</u>	<u>\$ 746,904</u>	<u>\$ 29,889</u>
Expenditures			
Principal	538,258	\$ 538,259	\$ 1
Interest and other charges	278,695	278,696	1
Reserves	<u>-</u>	<u>267,690</u>	<u>267,690</u>
Total Expenditures	<u>816,953</u>	<u>\$ 1,084,645</u>	<u>\$ 267,692</u>
Receipts Over [Under] Expenditures	[40,160]		
Unencumbered Cash, Beginning	<u>316,065</u>		
Unencumbered Cash, Ending	<u>\$ 275,905</u>		

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

POST LANTERN STREET LIGHT PROJECT FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Taxes	\$ 169,347	\$ 167,500	\$ 1,847
Use of money and property	<u>651</u>	<u>-</u>	<u>651</u>
Total Receipts	<u>169,998</u>	<u>\$ 167,500</u>	<u>\$ 2,498</u>
Expenditures			
Transfers out	<u>136,510</u>	<u>\$ 136,510</u>	<u>\$ -</u>
Total Expenditures	<u>136,510</u>	<u>\$ 136,510</u>	<u>\$ -</u>
Receipts Over [Under] Expenditures	33,488		
Unencumbered Cash, Beginning	<u>150,811</u>		
Unencumbered Cash, Ending	<u>\$ 184,299</u>		

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

OTHER CAPITAL PROJECTS FUNDS*
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
 Regulatory Basis
 For the Year Ended December 31, 2017

	Capital Reserve Fund	Fisher Building	Skate Park	Crestview Park	Waterline Project	School & Fitness Trail	RD/CDBG Sewer Project	Bruning Upgrades	Grant/ Donation	Sales Tax Streets	Brick Streets KDOT Grant	Water Improvement	Actual
Receipts													
Grant proceeds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,212,571	\$ 6,202	\$ 25,258	\$ -	\$ -	\$ -	\$ 1,244,031
Taxes	-	-	-	-	-	-	-	-	-	197,950	-	-	197,950
Donations	-	-	-	-	-	-	-	-	350	-	-	-	350
Loan proceeds	-	-	-	-	-	-	-	-	-	-	-	1,144,013	1,144,013
Reimbursements	-	-	-	-	-	-	-	451	-	-	-	-	451
Transfers in	61,548	-	-	-	-	-	-	-	-	-	-	-	61,548
Total Receipts	61,548	-	-	-	-	-	1,212,571	6,653	25,608	197,950	-	1,144,013	2,648,343
Expenditures													
Contractual services	-	-	277	-	-	-	-	69	-	244,137	204	-	244,687
Capital outlay	23,687	-	-	244	[1,049]	-	718,092	-	31,100	-	-	907,042	1,679,116
Debt service	-	-	-	-	-	-	-	-	-	-	-	6,099	6,099
Total Expenditures	23,687	-	277	244	[1,049]	-	718,092	69	31,100	244,137	204	913,141	1,929,902
Receipts Over [Under] Expenditures	37,861	-	[277]	[244]	1,049	-	494,479	6,584	[5,492]	[46,187]	[204]	230,872	718,441
Unencumbered Cash, Beginning	48,939	202	2,751	244	[1,049]	18,020	[494,479]	798	9,413	-	-	[450,369]	[865,530]
Unencumbered Cash, Ending	\$ 86,800	\$ 202	\$ 2,474	\$ -	\$ -	\$ 18,020	\$ -	\$ 7,382	\$ 3,921	\$ [46,187]	\$ [204]	\$ [219,497]	\$ [147,089]

* These funds are not required to be budgeted.

CITY OF HIAWATHA, KANSAS

WATER FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Charges for services	\$ 1,257,549	\$ 1,159,640	\$ 97,909
Miscellaneous	1,214	-	1,214
Reimbursed expenses	<u>4,829</u>	<u>-</u>	<u>4,829</u>
Total Receipts	<u>1,263,592</u>	<u>\$ 1,159,640</u>	<u>\$ 103,952</u>
Expenditures			
Personal services	321,744	\$ 301,514	\$ [20,230]
Contractual services	120,859	227,010	106,151
Commodities	63,696	89,850	26,154
Capital outlay	102,841	98,424	[4,417]
Transfers out	<u>151,852</u>	<u>113,480</u>	<u>[38,372]</u>
Total Expenditures	<u>760,992</u>	<u>\$ 830,278</u>	<u>\$ 69,286</u>
Receipts Over [Under] Expenditures	502,600		
Unencumbered Cash, Beginning	<u>1,262,937</u>		
Unencumbered Cash, Ending	<u>\$ 1,765,537</u>		

See independent auditor's report on the financial statements.

SCHEDULE 2-19

CITY OF HIAWATHA, KANSAS

SEWER FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Charges for services	\$ 868,052	\$ 892,000	\$ [23,948]
Reimbursed expenses	552	-	552
Use of money and property	1,950	-	1,950
Miscellaneous	<u>500</u>	<u>-</u>	<u>500</u>
Total Receipts	<u>871,054</u>	<u>\$ 892,000</u>	<u>\$ [20,946]</u>
Expenditures			
Personal services	245,222	\$ 270,315	\$ 25,093
Contractual services	178,466	196,500	18,034
Commodities	18,994	28,000	9,006
Capital outlay	76,507	85,000	8,493
Transfers out	<u>368,371</u>	<u>355,042</u>	<u>[13,329]</u>
Total Expenditures	<u>887,560</u>	<u>\$ 934,857</u>	<u>\$ 47,297</u>
Receipts Over [Under] Expenditures	[16,506]		
Unencumbered Cash, Beginning	<u>636,958</u>		
Unencumbered Cash, Ending	<u>\$ 620,452</u>		

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

STORM WATER UTILITY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Regulatory Basis

For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Charges for services	\$ 79,912	\$ 80,000	\$ [88]
Total Receipts	<u>79,912</u>	<u>\$ 80,000</u>	<u>\$ [88]</u>
Expenditures			
Contractual services	39	\$ 500	\$ 461
Commodities	3,925	13,500	9,575
Capital outlay	<u>78,135</u>	<u>76,000</u>	<u>[2,135]</u>
Total Expenditures	<u>82,099</u>	<u>\$ 90,000</u>	<u>\$ 7,901</u>
Receipts Over [Under] Expenditures	[2,187]		
Unencumbered Cash, Beginning	<u>49,172</u>		
Unencumbered Cash, Ending	<u>\$ 46,985</u>		

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

POOL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Regulatory Basis

For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Charges for services	\$ 43,048	\$ 46,050	\$ [3,002]
Reimbursed expenses	73	500	[427]
Use of money and property	1,066	100	966
Miscellaneous	71	-	71
Transfers in	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Total Receipts	<u>104,258</u>	<u>\$ 106,650</u>	<u>\$ [2,392]</u>
Expenditures			
Personal services	57,663	\$ 57,516	\$ [147]
Contractual services	31,695	32,650	955
Commodities	3,813	17,500	13,687
Capital outlay	<u>4,473</u>	<u>4,000</u>	<u>[473]</u>
Total Expenditures	<u>97,644</u>	<u>\$ 111,666</u>	<u>\$ 14,022</u>
Receipts Over [Under] Expenditures	6,614		
Unencumbered Cash, Beginning	<u>165,002</u>		
Unencumbered Cash, Ending	<u>\$ 171,616</u>		

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

AIRPORT FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Regulatory Basis

For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Charges for services	\$ 4,110	\$ 7,000	\$ [2,890]
Reimbursed expenses	<u>1,276</u>	<u>-</u>	<u>1,276</u>
Total Receipts	<u>5,386</u>	<u>\$ 7,000</u>	<u>\$ [1,614]</u>
Expenditures			
Contractual services	4,762	\$ 5,525	\$ 763
Commodities	421	-	[421]
Capital outlay	<u>4,270</u>	<u>25,000</u>	<u>20,730</u>
Total Expenditures	<u>9,453</u>	<u>\$ 30,525</u>	<u>\$ 21,072</u>
Receipts Over [Under] Expenditures	[4,067]		
Unencumbered Cash, Beginning	<u>38,155</u>		
Unencumbered Cash, Ending	<u>\$ 34,088</u>		

See independent auditor's report on the financial statements.

SCHEDULE 3

CITY OF HIAWATHA, KANSAS

TRUST FUNDS
 SCHEDULE OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
 Regulatory Basis
 For the Year Ended December 31, 2017

	Beginning Unencumbered Cash <u>Balance</u>	Prior Year Cancelled <u>Encumbrances</u>	<u>Receipts</u>	<u>Expenditures</u>	Ending Unencumbered Cash <u>Balance</u>	Outstanding Encumbrances and Accounts <u>Payable</u>	Ending Cash <u>Balance</u>
Permanent Funds							
C.H. Janes Poor Memorial	\$ 4,757	\$ -	\$ 8	\$ 8	\$ 4,757	\$ -	\$ 4,757
G.A.R. Memorial	1,949	-	3	3	1,949	-	1,949
Morrissee Memorial	2,839	-	5	5	2,839	-	2,839
Daisy Hassenpflug Memorial	1,305	-	2	2	1,305	-	1,305
Private Purpose Trust Funds							
Lake	696	-	1,030	-	1,726	-	1,726
Child Safety	1,758	-	-	-	1,758	-	1,758
Kiwanis	56	-	-	-	56	-	56
Bruning Memorial	541	-	-	-	541	-	541
Widman Memorial	1,632	-	17	-	1,649	-	1,649
Envisioning	99	-	-	-	99	-	99
Hockey Rink	1,130	-	-	-	1,130	-	1,130
Total Trust Funds	<u>\$ 16,762</u>	<u>\$ -</u>	<u>\$ 1,065</u>	<u>\$ 18</u>	<u>\$ 17,809</u>	<u>\$ -</u>	<u>\$ 17,809</u>

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

AGENCY FUNDS
SUMMARY OF RECEIPTS AND DISBURSEMENTS
For the Year Ended December 31, 2017

<u>FUND</u>	Beginning Cash <u>Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	Ending Cash <u>Balance</u>
Sales Tax	\$ 1,854	\$ 20,328	\$ 20,268	\$ 1,914
Total Agency Funds	\$ 1,854	\$ 20,328	\$ 20,268	\$ 1,914

SCHEDULE 5

CITY OF HIAWATHA, KANSAS

GENERAL FUND
MORRILL PUBLIC LIBRARY - RELATED MUNICIPAL ENTITY
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
Regulatory Basis
For the Year Ended December 31, 2017

Receipts:	
Grants and state appropriations	\$ 24,674
City appropriation	145,459
Fines and fees	5,949
Gifts and donations	31,264
Interest and investment earnings	28,621
Farm income	34,465
Miscellaneous	66
Gain/[Loss] of value on investments	<u>33,659</u>
Total Receipts	<u>304,157</u>
Expenditures:	
Salary and payroll taxes	160,008
Books, periodicals, videos and film	33,464
Supplies	9,662
Repairs and maintenance	12,987
Utilities	16,535
Insurance	7,707
Continuing education	1,656
Professional fees	14,935
Capital improvements	23,349
Miscellaneous and postage	<u>10,395</u>
Total Expenditures	<u>290,698</u>
Receipts Over [Under] Expenditures	13,459
Unencumbered Cash, Beginning	<u>1,250,904</u>
Unencumbered Cash, Ending	<u>\$ 1,264,363</u>

See independent auditor's report on the financial statements.

CITY OF HIAWATHA, KANSAS

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. Department of Agriculture</u>			
Direct Programs			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 927,000	\$ 1,065,377
Total Department of Agriculture		<u>927,000</u>	<u>1,065,377</u>
<u>U.S. Department of Housing & Urban Development</u>			
Passed Through the State of Kansas			
Community Development Block Grants	14.228	<u>291,773</u>	<u>285,639</u>
Total Department of Housing & Urban Development		<u>291,773</u>	<u>285,639</u>
<u>U.S. Department of Justice</u>			
Passed Through the State of Kansas			
JAG Grant	16.unk	<u>13,485</u>	<u>13,485</u>
Total Department of Justice		<u>13,485</u>	<u>13,485</u>
Total		<u>\$ 1,232,258</u>	<u>\$ 1,364,501</u>

The accompanying notes are an integral part of this schedule.

CITY OF HIAWATHA, KANSAS

Notes to the Schedule of Expenditures of Federal Awards For the Year ended December 31, 2017

1. Organization

The City of Hiawatha, Kansas, (the City), is the recipient of several federal awards. All federal awards received directly from federal agencies as well as those awards that are passed through other government agencies, are included on the schedule of Expenditures of Federal Awards.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on the Kansas regulatory basis of accounting which includes cash disbursements, accounts payable and encumbrances. The information presented in this schedule is in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. The City elected not to use the 10% de minimis indirect cost rate.

3. Local Government Contributions

Local cost sharing is required by certain federal grants. The amount of cost sharing varies with each program. Only the federal share of expenditures is presented in the Schedule of Expenditures of Federal Awards.

4. Additional Audits

Grantor agencies reserve the right to conduct additional audits of the City's grant programs for economy and efficiency and program results that may result in disallowed costs to the City. However, management does not believe such audits would result in any disallowed costs that would be material to the City's financial position at December 31, 2017.

5. Outstanding Loans

The City did not have any outstanding loans under any federal grants at December 31, 2017.

CITY OF HIAWATHA, KANSAS

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified (Regulatory Basis) <u>Adverse (GAAP)</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u> </u> Yes <u> X </u> No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	<u> X </u> Yes <u> </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes <u> X </u> No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u> </u> Yes <u> X </u> No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	<u> </u> Yes <u> X </u> None reported
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	<u> </u> Yes <u> X </u> No
Identification of major programs:	

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs:	<u>\$750,000</u>
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Auditee qualified as low-risk auditee?	<u> </u> Yes <u> X </u> No
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CITY OF HIAWATHA, KANSAS

Schedule of Findings and Questioned Costs - Continued
For the Year Ended December 31, 2017

Section II - Financial Statement Findings

Current Year Findings

<u>Program</u>	<u>Finding</u>	<u>Condition</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>
Not applicable	2017-1	The City currently lacks a separation of physical control over cash and accounting control over cash in dealing with municipal court receipts. As a result, material misstatements of municipal court revenue accounts may occur and not be prevented or detected and corrected on a timely basis.	Recommended Practices	Not determined	Proper cash controls would provide that separate individuals be assigned to physical control and accounting control of cash. We recommend the City review its municipal court billing and receipting procedures and assign employee responsibilities in such a way that custody, authorization and record keeping not be handled by the same individual.	Agrees

Prior Year Findings

<u>Program</u>	<u>Finding</u>	<u>Condition</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>	<u>Current Status</u>
Not applicable	2016-1	The City currently lacks a separation of physical control over cash and accounting control over cash in dealing with municipal court receipts. As a result, material misstatements of municipal court revenue accounts may occur and not be prevented or detected and corrected on a timely basis.	Recommended Practices	Not determined	Proper cash controls would provide that separate individuals be assigned to physical control and accounting control of cash. We recommend the City review its municipal court billing and receipting procedures and assign employee responsibilities in such a way that custody, authorization and record keeping not be handled by the same individual.	Agrees	Repeated at 2017-1

Section III - Federal Award Findings and Questioned Costs

None Noted

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

Mayor and City Commission
City of Hiawatha, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Kansas Municipal Audit and Accounting Guide*, the financial statements of the City of Hiawatha, Kansas, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questions costs as Finding 2017-01 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain other matters that we reported to management of the City in a separate letter dated March 21, 2018.

City of Hiawatha's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mize Houser & Company PA

Certified Public Accountants

March 21, 2018
Lawrence, KS



MIZE HOUSER
COMPANY P.A.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Mayor and City Commission
City of Hiawatha, Kansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of Hiawatha, Kansas, (the City) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal financial programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United State of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *Kansas Municipal Audit and Accounting Guide*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mix Houser: Company PA

Certified Public Accountants

March 21, 2018
Lawrence, KS